

Artesian Water Company, Inc.
(A Wholly Owned Subsidiary of
Artesian Resources Corporation)

Financial Statements
December 31, 2008 and 2007

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Independent Auditors' Report

To the Board of Directors and Stockholders
Artesian Water Company, Inc.
Newark, Delaware

We have audited the accompanying balance sheets of Artesian Water Company, Inc. ("the Company") as of December 31, 2008 and 2007 and the related statements of operations, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Artesian Water Company, Inc. at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

BDO Seidman, LLP
Bethesda, Maryland
March 12, 2009

Artesian Water Company, Inc.

Balance Sheets

<i>In Thousands</i>	December 31,	
	2008	2007
ASSETS		
Utility Plant, at original cost (less accumulated depreciation 2008-\$57,988; 2007-\$52,607)	\$ 293,564	\$ 263,391
Current Assets		
Cash and cash equivalents	367	287
Accounts receivable (less reserve for bad debts 2008-\$75; 2007-\$279)	8,809	13,293
Unbilled operating revenues	3,597	3,198
Materials and supplies - at cost on first-in first-out basis	1,144	1,192
Prepaid property taxes	1,117	1,056
Prepaid expenses and other	478	688
	15,512	19,714
Other Assets		
Non-utility property (less accumulated depreciation 2008-\$47; 2007-\$40)	134	141
Other deferred assets	4,223	3,926
	4,357	4,067
Regulatory Assets	1,851	1,681
	\$ 315,284	\$ 288,853
LIABILITIES AND CAPITAL		
Capitalization		
Common stock-\$1 par value (1,000 shares authorized, issued and outstanding)	\$ 1	\$ 1
Additional paid-in-capital	62,666	62,666
Retained earnings	18,106	17,181
Total stockholder's equity	80,773	79,848
Long-term debt, net of current portion	105,814	91,757
	186,587	171,605
Commitments and Contingencies		
Current Liabilities		
Lines of credit	7,823	898
Current portion of long-term debt	936	316
Accounts payable	6,089	7,658
Accrued expenses	2,542	2,421
Overdraft payable	739	1,598
Loan payable to parent	150	150
Deferred income taxes	373	301
Interest accrued	1,176	326
Customer deposits	556	746
	20,384	14,414
Deferred Credits and Other Liabilities		
Net advances for construction	20,928	23,840
Postretirement benefit obligation	812	868
Deferred investment tax credits	715	740
Deferred income taxes	29,256	25,180
	51,711	50,628
Net Contributions In Aid of Construction	56,602	52,206
	\$ 315,284	\$ 288,853

See accompanying summary of accounting policies and notes to financial statements.

Artesian Water Company, Inc.

Statements of Operations and Statements of Retained Earnings

<i>In Thousands</i>	Year Ended December 31,	
	2008	2007
Operating Revenues		
Water sales	\$ 50,043	\$ 48,439
Other	1,233	903
	<u>51,276</u>	<u>49,342</u>
Operating Expenses		
Operation and maintenance expenses	27,213	26,183
Depreciation and amortization	5,543	5,063
Taxes		
State and federal income	4,085	3,883
Deferred	3,054	2,766
Property and other	<u>39,895</u>	<u>37,895</u>
Operating Income	<u>11,381</u>	<u>11,447</u>
Other Income, Net		
Allowance for funds used during construction	749	175
Miscellaneous	352	521
Income Before Interest Charges	<u>12,482</u>	<u>12,143</u>
Interest Charges		
Long-term debt	5,905	5,816
Short-term debt	291	329
Amortization of debt expense	112	110
Other	58	60
	<u>6,366</u>	<u>6,315</u>
Net Income	<u>\$ 6,116</u>	<u>\$ 5,828</u>
Retained Earnings, beginning of year	<u>\$ 17,181</u>	<u>\$ 15,803</u>
Dividends to Parent Company	<u>5,191</u>	<u>4,450</u>
Retained Earnings, end of year	<u>\$ 18,106</u>	<u>\$ 17,181</u>

See accompanying summary of accounting policies and notes to financial statements.

Artesian Water Company, Inc.

Statements of Cash Flows

<i>In Thousands</i>	Year Ended December 31,	
	2008	2007
Cash Flows From Operating Activities		
Net income	\$ 6,116	\$ 5,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,543	5,063
Deferred income taxes, net	4,123	3,405
Allowance for funds used during construction (AFUDC)	(749)	(175)
Changes in assets and liabilities:		
Receivables, net of reserve for bad debts	4,484	(5,348)
Unbilled operating revenues	(399)	(542)
Materials and supplies	48	(138)
Regulatory assets	(170)	200
Postretirement benefit obligation	(56)	(59)
Other deferred assets	(298)	(160)
Prepaid property taxes	(61)	(133)
Prepaid expenses and other	210	38
Accounts payable	(1,569)	1,961
Accrued expenses	121	(936)
Interest accrued	850	(35)
Customer deposits and other, net	(190)	162
Net Cash Provided By Operating Activities	18,003	9,131
Cash Flows Used In Investing Activities		
Capital expenditures (net of AFUDC)	(35,402)	(23,102)
Proceeds from sales of assets	62	27
Net Cash Used In Investing Activities	(35,340)	(23,075)
Cash Flows From Financing Activities		
Net (repayments) borrowings under lines of credit agreements	6,925	(7,008)
Proceeds from additional investment from parent company	—	20,000
Deferred debt issuance costs	1	110
Issuance of long-term debt	15,000	—
Principal repayments of long-term debt	(323)	(310)
(Decrease) in overdraft payable	(859)	(392)
Net advances and contributions in aid of construction	1,864	6,275
Dividends to parent company	(5,191)	(4,450)
Net Cash Provided By Financing Activities	17,417	14,225
Net Increase In Cash And Cash Equivalents	80	281
Cash And Cash Equivalents At Beginning Of Year	287	6
Cash And Cash Equivalents At End Of Year	\$ 367	\$ 287
Supplemental Disclosures of Cash Flow Information:		
Utility plant received as construction advances and contributions	\$ 409	\$ —
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 5,404	\$ 6,239

See accompanying summary of accounting policies and notes to financial statements.

Artesian Water Company, Inc.

Summary of Significant Accounting Policies

Accounting

Artesian Water Company, Inc., Artesian Water or the Company, is a wholly-owned subsidiary of Artesian Resources Corporation. The Company provides water utility service to customers within its established service areas in Delaware, pursuant to rates filed with and approved by the Delaware Public Service Commission (the "DEPSC"). As of December 31, 2008, the Company served approximately 75,800 customers. The accounting records of the Company are maintained in accordance with the uniform system of accounts as prescribed by the DEPSC. The Company follows the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", which provides guidance for companies in regulated industries.

Utility Plant

All additions to plant are recorded at cost. Cost includes direct labor, materials and indirect charges for such items as transportation, supervision, pension and other fringe benefits related to employees engaged in construction activities. When depreciable units of utility plant are retired, the cost of retired property, together with any cost associated with retirement and less any salvage value or proceeds received, is charged to the accumulated depreciation. Maintenance, repairs and replacement of minor items of plant are charged to expense as incurred.

In accordance with a rate order issued by the DEPSC, the Company accrues an Allowance for Funds Used During Construction, AFUDC. AFUDC, which represents the cost of funds devoted to construction projects through the date the project is placed in service, is capitalized as part of construction work in progress. The rate used for the AFUDC calculation is based on the Company's weighted average cost of debt and the rate of return on equity authorized by the DEPSC. The rate used to capitalize AFUDC in 2008 and 2007 was 7.9% and 8.1%, respectively.

Artesian Water Company, Inc.

Summary of Significant Accounting Policies

Utility plant comprises:

<i>In thousands</i>	<i>Estimated Useful Life In Years</i>	<i>December 31, 2008</i>	<i>2007</i>
Utility plant at original cost			
Utility plant in service			
Intangible plant	-	\$ 140	\$ 140
Source of supply plant	45-85	15,313	15,168
Pumping and water treatment plant	35-62	51,728	46,598
Transmission and distribution plant			
Mains	81	165,415	155,821
Services	39	28,010	26,158
Storage tanks	76	20,889	17,176
Meters	26	12,508	10,729
Hydrants	60	9,010	8,351
General plant	3-31	41,418	26,530
Property held for future use	-	1,394	5,370
Construction work in progress	-	5,727	3,957
		351,552	315,998
Less - accumulated depreciation		57,988	52,607
		\$ 293,564	\$ 263,391

Depreciation and Amortization

For financial reporting purposes, depreciation is provided using the straight-line method at rates based on estimated economic useful lives, which range from 3 to 85 years. Composite depreciation rates for utility plant were 2.24% for 2008 and 2.12% for 2007. In a rate order issued by the DEPSC, the Company was directed effective January 1, 1998 to begin using revised depreciation rates for utility plant. In rate orders issued by the DEPSC, Artesian Water was directed effective May 28, 1991 and August 25, 1992 to offset depreciation on utility property funded by Contributions in Aid of Construction, CIAC, and Advances for Construction, Advances, respectively, against CIAC and Advances. Other deferred assets are amortized using the straight-line method over applicable lives, which range from 2 to 40 years.

Artesian Water Company, Inc.

Summary of Significant Accounting Policies

Regulatory Assets

In accordance with SFAS No. 71, certain expenses are recoverable through rates charged to our customers, without a return on investment, and are deferred and amortized during future periods using various methods as permitted by the DEPSC. Expenses related to rate proceedings and applications to increase rates are amortized on a straight-line basis over a period of two years. The postretirement benefit obligation (See Note 5 - Employee Benefit Plans), which is being amortized over twenty years, is adjusted for the difference between the net periodic postretirement benefit costs and the cash payments. The deferred income taxes will be amortized over future years as the tax effects of temporary differences previously flowed through to the customers.

Regulatory assets at December 31, net of amortization, comprise:

<i>In thousands</i>	2008	2007
Postretirement benefit obligation	\$ 924	\$ 968
Deferred income taxes recoverable in future rates	551	567
Expense of rate proceedings	376	141
Other	—	5
	\$ 1,851	\$ 1,681

Impairment or Disposal of Long- Lived Assets

Impairment of our long-lived assets, including Utility Plant in Service, is assessed in accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". In addition, the regulatory assets are reviewed for the continued application of SFAS No. 71. The review determines whether there have been changes in circumstances or events that have occurred requiring adjustments to the carrying value of these assets. In accordance with SFAS No. 71, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

Artesian Water Company, Inc.

Summary of Significant Accounting Policies

Other Deferred Assets

Debt issuance costs are amortized over the term of the related debt, which range from 10 to 30 years. The investment in Co-Bank, which is a cooperative bank, is related to certain outstanding First Mortgage Bonds and is a required investment in the bank based on the underlying long term debt agreements.

Other deferred assets at December 31, net of amortization, comprised:

<i>In thousands</i>	2008	2007
Debt issuance expense	\$ 2,471	\$ 2,472
Investment in Co-Bank	1,660	1,411
Other	92	43
	\$ 4,223	\$ 3,926

Advances for Construction

Water mains, services and hydrants, or cash advances to reimburse Artesian Water its costs to construct water mains, services and hydrants are contributed to Artesian Water by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Advances for Construction. Artesian Water makes refunds on these Advances over a specific period of time based on operating revenues generated by the specific plant or as new customers are connected to the mains. After all refunds are made, any remaining balance is transferred to CIAC.

Contributions in Aid of Construction

CIAC includes the non-refundable portion of advances for construction and direct contributions of water mains, services and hydrants, or cash to reimburse Artesian Water its costs to construct water mains, services and hydrants by customers, real estate developers and builders in order to extend water service to their properties.

Artesian Water Company, Inc.

Summary of Significant Accounting Policies

Income Taxes

Deferred income taxes are provided in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" on all differences between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements based on the enacted tax rates expected to be in effect when such temporary differences are expected to reverse. The Company adopted FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109 "Accounting for Income Taxes" effective January 1, 2007 and after analyzing our various tax positions determined that no further entry, recognition or derecognition were required. The company would recognize, if applicable, interest accrued and penalties related to unrecognized tax benefits in interest expense and in accordance with the regulations of the jurisdictions involved.

The Tax Reform Act of 1986 mandated that Advances and CIAC received subsequent to December 31, 1986, generally are taxable income to Artesian Water. The 1996 Tax Act provided an exclusion from taxable income for CIAC and Advances received after June 12, 1996 by our utilities except for certain contributions for large services that are not included in rate base for rate-making purposes.

Investment tax credits were deferred through 1986 and are recognized as a reduction of deferred income tax expense over the estimated economic useful lives of the related assets.

Revenue Recognition and Unbilled Revenues

Water service revenue for financial statement purposes includes amounts billed to customers on a cycle basis and unbilled amounts based upon estimated usage from the date of the last meter reading to the end of the accounting period.

Accounts Receivables

Accounts receivable are recorded at the invoiced amounts. The reserve for bad debts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience. The Company reviews the reserve for bad debts on a quarterly basis. Account balances are written off against the reserve when it is probable the receivable will not be recovered; \$195,000 and \$290,000 was charged to expense in 2008 and 2007, respectively. The following table summarizes the changes in the Company's accounts receivable balance:

Artesian Water Company, Inc.

Summary of Significant Accounting Policies

Receivables at December 31, comprised:

<i>In thousands</i>	2008	2007
Customer Accounts Receivable – Water	\$ 2,619	\$ 4,422
Intercompany Accounts Receivable	5,695	8,611
Other	570	539
	8,884	13,572
Less allowance for doubtful accounts	75	279
Net accounts receivable	\$ 8,809	\$ 13,293

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Company considers all temporary cash investments with a maturity of three months or less to be cash equivalents. The Company utilizes its bank's zero balance account disbursement service to reduce the use of its lines of credit by funding checks as they are presented to the bank for payment rather than at issuance. If the checks currently outstanding, but not yet funded, exceed the cash balance on the Company's books, the net liability is recorded as a current liability on the balance sheet in the Overdraft Payable account.

Use of Estimates in the Preparation of the Financial Statements

The financial statements were prepared in conformity with generally accepted accounting principles, which require management to make estimates about the reported amounts of assets and liabilities including unbilled revenues, reserves for a portion of revenues received under temporary rates and regulatory asset recovery and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on net income or stockholders' equity.

Artesian Water Company, Inc.

Notes to Financial Statement

1. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Current Assets and Liabilities

For those current assets and liabilities that are considered financial instruments, the carrying amounts approximate fair value because of the short maturity of those instruments.

Long-term Financial Liabilities

The fair value of the Company's long-term debt as of December 31, 2008 and 2007, determined by discounting their future cash flows using current market interest rates on similar instruments with comparable maturities, as guided under SFAS 107, are shown as below:

<i>In thousands</i>	December 31,	
	2008	2007
Carrying amount	\$ 105,814	\$ 91,757
Estimated fair value	111,475	92,600

The fair value of Advances for Construction cannot be reasonably estimated due to the inability to accurately estimate future refunds expected to be paid over the life of the contracts. Refund payments are based on the water sales to new customers in the particular development constructed. The fair value of Advances for Construction would be less than the carrying amount because these financial instruments are non-interest bearing.

Artesian Water Company, Inc.

Notes to Financial Statement

2. **Income Taxes** The Company is included in the consolidated tax returns of its parent, Artesian Resources Corporation. However, for financial statement purposes, the Company calculates its tax provision on a separate return basis.

The difference between the effective tax rate (2008 – 40.0%; 2007 – 40.0%) and the amount derived by multiplying income before federal and state income taxes by the effective statutory federal income tax rate of 34% in 2008 and 2007 is primarily attributable to state income taxes.

As of December 31, 2008, the Company has federal net operating loss carry forwards aggregating approximately \$11,615,000 which will expire if unused by 2028. As of December 31, 2008, the Company has state net operating loss carry forwards ("NOL's") aggregating approximately \$16,891,000. These NOL's will expire if unused between 2023 and 2028. At December 31, 2008, for federal income tax purposes, there were alternative minimum tax credit carry-forwards aggregating approximately \$2,495,000 resulting from the payment of alternative minimum tax in current and prior years. These alternative minimum tax credit carry-forwards may be carried forward indefinitely to offset future regular federal income taxes. The Company has not recorded a valuation allowance for these tax carry forwards, because the Company believes it is more likely than not that such benefits will be realized.

In June 2006, FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109 "Accounting for Income Taxes". The Company adopted this statement effective January 1, 2007 and after analyzing Artesian's various tax positions determined that no further entry, recognition or derecognition were required. The Company would recognize, if applicable, interest accrued and penalties related to unrecognized tax benefits in interest expense and in accordance with the regulations of the jurisdictions involved. There were no such charges for the period ended December 31, 2008. Additionally, there were no accruals relating to interest or penalties as of December 31, 2008. The Company remains subject to examination by federal and state authorities for tax years 2005 through 2008.

Artesian Water Company, Inc.

Notes to Financial Statement

Deferred income taxes are comprised of the following:

<i>In thousands</i>	December 31,	
	2008	2007
Alternative minimum tax credit carry forwards	\$ 2,495	\$ 2,550
Bad debt allowance	71	119
Federal and state NOL's	4,919	3,361
Other	81	45
Total deferred tax assets	7,566	6,075
Deferred tax liabilities related to:		
Property, plant and equipment basis differences	(36,385)	(30,857)
Expenses of rate proceedings	(149)	(56)
Property taxes	(444)	(420)
Regulatory asset	(217)	(223)
Total deferred tax liabilities	(37,195)	(31,556)
Net deferred tax liability	\$ (29,629)	\$ (25,481)

Deferred taxes, which are classified into a net current and non-current balance, are presented in the balance sheet as follows:

<i>In thousands</i>	December 31,	
	2008	2007
Current deferred tax liability	\$ (373)	\$ (301)
Non-current deferred tax liabilities	(29,256)	(25,180)
Net deferred tax liability	\$ (29,629)	\$ (25,481)

Artesian Water Company, Inc.

Notes to Financial Statement

3. **Lines of Credit** Artesian Water has available two unsecured lines of credit, with no financial covenant restrictions, totaling \$40 million at December 31, 2008, which are shared with Artesian Water Maryland, Inc. and are renewable annually at each of the bank's discretion. Subsequent to December 31, 2008, the shared lines of credit have been separated to reflect the borrowing needs of Artesian Water and Artesian Water Maryland, Inc. separately. Borrowings under the lines of credit bear interest based on the London Interbank Offering Rate, LIBOR, plus 1.0% for 30, 60, 90, or 180 days or the banks' federal funds rate plus 1.0%, at the option of the Company. Each bank reviews all of their facilities annually for renewal.

At December 31, 2008 and 2007 the Artesian Water had \$7.8 million and \$0.9 million outstanding under these lines at average interest rates of 2.8% and 6.2%, respectively. Approximately \$5.5 million of the amount outstanding at December 31, 2008 was borrowed for use by Artesian Water Maryland, Inc. The maximum amount outstanding was \$18.0 million and \$13.2 million in 2008 and 2007 respectively. The twelve-month average amount outstanding was approximately \$9.5 million and \$5.3 million at weighted average annual interest rates of 3.5% and 5.9% in 2008 and 2007 respectively.

4. **Long-Term Debt** As of December 31, 2008 and 2007, substantially all of Artesian Water's utility plant was pledged as security for the First Mortgage Bonds. In addition, the trust indentures relating to these First Mortgage Bonds contain covenants which limit long-term debt, including the current portion thereof, to 66 2/3% of total capitalization including the current portion of the long-term debt, and which, in certain circumstances, could restrict the payment of cash dividends. As of December 31, 2008, however, no dividend restrictions were imposed under these covenants.

Artesian Water Company, Inc.

Notes to Financial Statement

<i>In thousands</i>	December 31,	
	2008	2007
First mortgage bonds		
Series O, 8.17%, due December 29, 2020	\$ 20,000	\$ 20,000
Series P, 6.58%, due January 31, 2018	25,000	25,000
Series Q, 4.75%, due December 1, 2043	15,400	15,400
Series R, 5.96%, due December 31, 2028	25,000	25,000
Series S, 6.73%, due December 31, 2033	15,000	---
	<u>100,400</u>	<u>85,400</u>
State revolving fund loans		
4.48%, due August 1, 2021	3,209	3,387
3.57%, due September 1, 2023	1,201	1,261
3.64%, due May 1, 2024	1,940	2,025
	<u>6,350</u>	<u>6,673</u>
Sub-total	106,750	92,073
Less: current maturities	936	316
Total long-term debt	<u>\$ 105,814</u>	<u>\$ 91,757</u>

Payments of principal amount due during the next five years and thereafter:

<i>In thousands</i>	2009	2010	2011	2012	2013	Thereafter
First Mortgage bonds	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 97,400
State revolving fund loan	336	350	364	380	395	4,526
Total payments	<u>\$ 936</u>	<u>\$ 950</u>	<u>\$ 964</u>	<u>\$ 980</u>	<u>\$ 995</u>	<u>\$ 101,926</u>

Artesian Water Company, Inc.

Notes to Financial Statement

5. Employee Benefit Plans

401(k) Plan

The Company has a defined contribution 401(k) Salary Deduction Plan, or the "401 (k) Plan," which covers substantially all employees. Under the terms of the 401(k) Plan, the Company contributes 2% of eligible salaries and wages and matches employee contributions up to 6% of gross pay at a rate of 50%. The Company may, at its option, make additional contributions of up to 3% of eligible salaries and wages. No such additional contributions were made in 2008 and 2007. The 401(k) Plan expenses, which include Company contributions and administrative fees, for the years 2008 and 2007 were approximately \$572,000 and \$541,000, respectively.

Postretirement Benefit Plan

The Company has a Postretirement Benefit Plan, the "Benefit Plan", which provides medical and life insurance benefits, to certain retired employees. Prior to the amendment of the Benefit Plan in 1994, substantially all employees could become eligible for these benefits if they reached retirement age while still working for Artesian Water.

Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", SFAS 106, requires Artesian Water to accrue the expected cost of providing postretirement health care and life insurance benefits as employees render the services necessary to earn the benefits. The Company elected to defer recognition and amortize its transition obligation over twenty years beginning in 1993.

Artesian Water Company, Inc.

Notes to Financial Statement

The Company recognized an offsetting regulatory asset with respect to the SFAS 106 liability. This asset is recorded based on the DEPSC order, which permits the Company to continue recovery of postretirement health care and life insurance expense on a pay-as-you-go basis for the remaining eligible employees. The Company anticipates liquidating its SFAS 106 obligation and substantially recovering the expenses in rates over a period of approximately 20 years (based on the age and life expectancy of the remaining eligible participants). Further, expense recovery as a percentage of rates is expected to remain generally constant over the initial years, and then decline until the obligation is liquidated. Amounts charged to expense were approximately \$44,000 and \$59,000 for 2008 and 2007, respectively.

Supplemental Pension Plan

Effective October 1, 1994, Artesian Water established a Supplemental Pension Plan, the Supplemental Plan, to provide additional retirement benefits to full-time employees hired prior to April 26, 1994. The Supplemental Plan is a defined contribution plan that enables employees to save for future retiree medical costs, which will be paid by employees. The Supplemental Plan accomplishes this objective by providing additional cash resources to employees upon a termination of employment or retirement, to meet the cost of future medical expenses. The Company has established a contribution based upon each employee's years of service ranging from 2% to 6% of eligible salaries and wages. The Company also provides additional benefits to individuals who were over age 50 as of January 1, 1994. These individuals are referred to as the "Transition Group." Effective November 1, 1994, individuals eligible for the Transition Group had the opportunity to defer compensation to the Supplemental Plan, and to receive a transition matching contribution for 5 years. Each one-dollar of eligible salaries and wages deferred by the Transition Group was matched with three, four, or five dollars by the Company based on the employee's years of service subject to certain limitations under the federal tax rules. Plan expenses, which include Company contributions and administrative fees, for the years 2008 and 2007 were approximately \$276,000 and \$288,000, respectively.

Artesian Water Company, Inc.

Notes to Financial Statement

The Company uses December 31 as the measurement date to determine the postretirement benefit obligation. According to our actuarial report, the funded status of our defined benefit postretirement plan was calculated contemplating SFAS 158 and the obligation is recorded at that amount. There was no Other Comprehensive Income impact because we record a regulatory asset as provided by SFAS 71. Additional disclosures required for our postretirement benefit obligation are presented below.

Benefit Obligations and Funded Status

<i>In thousands</i>	Year Ended December 31,	
	2008	2007
Change in Accumulated Postretirement Benefit Obligation		
Accumulated Postretirement Benefit Obligation at the Beginning of the Year	\$ 944	\$ 862
Service Cost	-	-
Interest Cost	53	49
Actuarial (Gain) or Loss	(91)	126
Benefits Paid	(109)	(97)
Plan Participant's Contributions	4	4
Accumulated Postretirement Benefit Obligation at the End of the Year	801	944
Change in Plan Assets		
Fair Value of Plan Assets at the Beginning of	-	-
Benefits Paid	(109)	(97)
Employer Contributions	105	93
Plan Participant's Contributions	4	4
Fair Value of Assets at the End of the Year	-	-
Net Amount Recognized		
Funded Status	(801)	(944)
Unrecognized Transition Asset	43	51
Unrecognized Net Gain	(166)	(75)
Net Amount Recognized:	\$ (924)	\$ (968)
Amounts Recognized in the Statement of Financial Position		
Accrued Benefit Liability-Current	(112)	(100)
Accrued Benefit Liability-Noncurrent	(812)	(868)
Net Amount Recognized	(924)	(968)

Artesian Water Company, Inc.

Notes to Financial Statement

<i>In thousands</i>	Year Ended December 31,	
	2008	2007
Weighted Average Assumptions at the End of the Year		
Discount Rate	6.00%	6.00%
Assumed Health Care Cost Trend Rates		
Health Care Cost Trend Rate Assumed for Next Year	11.00%	11.00%
Ultimate Rate	5.00%	5.00%
Year that the Ultimate Rate is Reached	2015	2014

Net Periodic Benefit Cost

<i>In thousands</i>	Year Ended December 31,	
	2008	2007
Interest Cost	\$ 53	\$ 48
Amortization of Net Gain	—	(23)
Amortization of Transition Obligation/(Asset)	9	9
Total Net Periodic Benefit Cost	\$ 62	\$ 34

Weighted Average Assumptions		
Discount Rate	6.00%	6.00%
Assumed Health Care Cost Trend Rates		
Health Care Cost Trend Rate Assumed for Current Year	11.00%	11.00%
Ultimate Rate	5.00%	5.00%
Year that the Ultimate Rate is Reached	2015	2014

Impact of Once Percentage Point in Assumed Health Care Cost Trend Rates	Increase	Decrease
Effect on Service Cost & Interest Cost	\$ 3	\$ (3)
Effect on Postretirement Benefit Obligation	\$ 35	\$ (33)

Artesian Water Company, Inc.

Notes to Financial Statement

Contributions

Artesian Water expects to contribute \$112,000 to its postretirement benefit plan in 2008. The following table represents the benefits expected to be paid:

	(In thousands) Other Benefits
2009	\$ 112
2010	112
2011	112
2012	112
2013	112
2014 through 2018	500
	\$ 1,060

6. Commitments

During 1996, Artesian Water entered into a 10-year lease commitment for office space and this lease was further extended for two years ending February 29, 2008. Rent payments for 2007 and 2006 for the office space were \$72,000 each year. We vacated this property five months prior to the lease expiration as a result of unacceptable conditions not addressed by the landlord. During September 2007, Artesian Water entered into a 3-year contract for office space located in New Castle County, Delaware. This location is used as general office space while the Artesian Water main office space is being renovated. Rent payments during 2008 and 2007 were \$77,000 and \$25,000, respectively.

In 1997, Artesian Water entered into a 33-year operating lease for a parcel of land with improvements located in South Bethany, a municipality in Sussex County, Delaware. The annual lease payments increase each year by the most recent increase in the Consumer Price Index for Urban Workers, CPI-U, as published by the U.S. Department of Labor, Bureau of Labor Statistics. Rental payments for 2008 and 2007 were \$12,600 and \$11,900, respectively. The future minimum rental payment as disclosed in the following table is calculated using CPI-U as on October 31, 2008.

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During 2006, Artesian Water entered into a 3-year contract for office space located in Sussex County, Delaware. Rent payments during 2008 and 2007 were \$46,000 and \$43,000, respectively.

Future minimum annual rental payments per the above mentioned lease obligations for the years subsequent to 2008 are as follows:

<i>(In thousands)</i>	
2009	\$ 127
2010	66
2011	14
2012	14
2013	15
2014 through 2042	312
	\$ 548

Artesian Water has one water service interconnection agreement with a neighboring utility, Chester Water Authority, which requires minimum annual purchases. Rates charged under this agreement are subject to change. Effective August 1, 1997, Artesian Water renegotiated the contract with the Chester Water Authority to, among other things, reduce the minimum purchase requirements from 1,459 million gallons to 1,095 million gallons annually, calculated as 3 mgd times the number of calendar days in a year. The agreement was extended through the year 2021.

The Chester Water Authority sent us a notice on February 14, 2007 of a rate increase, effective July 1, 2007. We received a second notice of a rate increase on February 19, 2008, effective July 1, 2008. The minimum annual purchase commitments for all interconnection agreements for 2009 through 2013 and the aggregate total for the years 2014 through 2021, calculated at the noticed rates, are as follows:

Artesian Water Company, Inc.

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(In thousands)

2009	\$ 3,050
2010	3,050
2011	3,050
2012	3,059
2013	3,050
2014 through 2021	24,412

\$ 39,671

Expenses for purchased water were approximately \$2,960,000 and \$2,779,000 for the years ended December 31, 2008 and 2007, respectively.

In 2005, Artesian Water entered into a 6-year agreement with a contractor to clean and paint tanks from 2006 to 2011 for approximately \$1,872,000. The tank painting expense for 2008 and 2007 was approximately \$425,000 and \$416,000, respectively. The expenditures committed for the years subsequent to 2008 are approximately as follows:

(In thousands)

2009	\$ 375
2010	375
2011	174

\$ 924

Budgeted mandatory utility plant expenditures, due to planned governmental highway projects, which require the relocation of Artesian Water's service mains, expected to be incurred in 2009 through 2013 are approximately as follows:

Artesian Water Company, Inc.

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	<i>(In thousands)</i>
2009	\$ 564
2010	2,410
2011	1,250
2012	1,225
2013	1,000
	\$ 6,449

The exact timing and extent of these relocation projects is controlled primarily by the Delaware Department of Transportation.

7. Rate Proceedings

In May 2006, Artesian Water filed a petition with the DEPSC to implement new rates to meet a requested increase in revenue of 23%, or approximately \$9.9 million, on an annualized basis. This request was primarily due to the Company's significant investment in infrastructure, as well as an approximately 92% increase in purchased power expense due to the expiration of price caps imposed in 1999 when deregulation of the electric industry in Delaware was adopted. As permitted by law, in July 2006 we placed into effect temporary rates designed to generate an increase in annual operating revenue of approximately 5.9%, or \$2.5 million on an annual basis, until new rates are approved by the DEPSC.

On December 19, 2006, the DEPSC approved a Settlement Agreement in this case. The increase in annual revenue requirement under the Settlement Agreement of \$6 million would be generated in two steps. The first step was placed in effect on January 1, 2007 to generate approximately \$4.8 million in annual revenue. The second step was placed in effect July 24, 2007. The second step rates were designed to recover approximately \$1.2 million of annual revenue which reflected the issuance of additional equity issued by Artesian Resources and invested in Artesian Water in June and July of 2007 of approximately \$20 million.

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Delaware statute permits water utilities to put into effect, on a semi-annual basis, increases related to specific types of distribution system improvements through a Distribution System Improvement Charge, or DSIC. This charge is available to water utilities to be implemented between general rate increase applications that normally recognize changes in a water utility's overall financial position. The DSIC approval process is less costly when compared to the approval process for general rate increase requests. The DSIC rate applied between base rate filings is capped at 7.5% of the amount billed to customers under otherwise applicable rates and charges, and the DSIC rate increase applied can not exceed 5% within any 12-month period. In December 2007, we filed for a DSIC of 0.46% to be applied to customers' total bill, effective January 1, 2008, in order to recover the cost of non-revenue producing plant put into service between the end of the last general rate increase and October 2007. During 2008, we earned approximately \$99,000 in DSIC revenue. On June 21, 2008, the Company discontinued the collection of DSIC pursuant to Delaware law which requires the Company to discontinue a DSIC when new base rates are put into effect. We did not have DSIC in effect during 2007.

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Notes to Financial Statement

On January 25, 2008, Artesian Water submitted a notice to the DEPSC of our intent to file an application for a rate increase, as is required to be submitted prior to filing an application. On April 22, 2008, Artesian Water filed a petition with the DEPSC to implement new rates to meet a requested increase in revenue of 28.8%, or approximately \$14.2 million, on an annualized basis. On July, 11, 2008, pursuant to the DEPSC's minimum filing requirements, Artesian filed a supplemental filing with the DEPSC to update financial schedules for actual experience through March 31, 2008 and to reflect additional changes affecting the requested increase. The overall result was a reduction to the requested increase in revenue of 1.5%, to 27.3% or approximately \$13.5 million, on an annualized basis. This request was primarily due to the Company's significant investment in infrastructure to improve and ensure water quality and service reliability. This includes capital expenditures for additional supply, storage, water main replacements, hydraulic improvements, installation of automated meter reading equipment in the service territory south of the Chesapeake & Delaware canal, or C&D Canal, and additional space to house our critical operations and office support functions. The rate request was also filed due to increases in various operating and maintenance costs, including increased costs associated with depreciation, purchased power, purchased water, additional building space and postage. Additional reasons for this request include expenses related to new water system additions, the implementation of monthly billing to customers below the C&D Canal and creation of new water consumption blocks to provide the company an opportunity to achieve a fair rate of return.

As permitted by law, on June 21, 2008, we placed temporary rates into effect, designed to generate an increase in annual operating revenue of approximately 5.0%, or \$2.5 million on an annualized basis, until new rates are approved by the DEPSC. Also, pursuant to law, on December 17, 2008, we placed temporary rates into effect, designed to generate an additional increase in annual operating revenue of approximately 10% or \$5.0 million on an annualized basis, given that the rate case had not been concluded in a seven month period. Evidentiary hearings were held on December 8-9, 2008 and a final Commission decision is anticipated in the third quarter of 2009 in reference to the implementation of our requested rate increase.

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Price caps instituted by electric restructuring legislation in Delaware in 1999 were lifted in 2005 for customers of the Delaware Electric Cooperative, and in 2006 for Delmarva Power's customers, resulting in extreme price increases. Although we were unable to escape the significant increase associated with the expiration of the price caps, we sought to mitigate future significant increases by signing a two-year supply contract, at a fixed price, with Pepco Holdings, Inc. in April of 2008. This new pricing is included in our most recent request for rate relief filed with the DEPSC.

**9. Geographic
Concentration
of Customers**

The Company provides water utility service to customers within its established service territory in all three counties of Delaware, pursuant to rates filed with and approved by the DEPSC. As of December 31, 2008, the Company was serving approximately 75,800 customers.

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